

Service Date: September 23, 1580

DEPARTMENT OF PUBLIC SERVICE REGULATION
MONTANA PUBLIC SERVICE COMMISSION

IN THE MATTER of the Application by)
the City of Billings to adopt increased)
rates for water service.)

DOCKET NO. 6773

ORDER NO. 4657a

APPEARANCES

FOR THE APPLICANT:

Calvin A. Calton, Utilities Counsel, City of Billings, 301 South 24th Street West, Billings,
Montana 59102

INTERVENORS:

James C. Paine, Montana Consumer Counsel, 34 West Sixth Avenue, Helena, Montana
59601

FOR THE COMMISSION:

Calvin K. Simshaw, Staff Attorney

BEFORE:

CLYDE JARVIS, Commissioner
THOMAS J. SCHNEIDER, Commissioner
GEORGE TURMAN, Commissioner

FINDINGS OF FACT

1. On December 24, 1979, the City of Billings (Applicant or City) filed an application with this Commission for authority to increase rates, on a permanent basis, for water service at Billings, Montana and vicinity. The City requested an increase of 32 percent which would result in an increase of \$1,238,000 in annual revenues.

2. Concurrent with the filing of the permanent application for increased rates, the City filed an application for an interim increase in rates of 32 percent, equaling an annual revenue increase of \$1,238,000 or 100 percent of the proposed permanent increase.

3. On April 22, 1980, at 10:00 a.m., pursuant to notice of public hearing, a hearing was held in the 4th Floor Conference Room of the Billings Library, 510 N. Broadway, Billings, Montana. An evening meeting was held at the same location beginning at 7:00 p.m. on the same day. The purpose of the public hearing was to consider the merits of the Applicant's proposed permanent water rate adjustment. At the close of the hearing the City reaffirmed its request for interim rate relief of 32 percent.

4. The Commission having preliminarily considered the testimony and evidence, issued Order No. 4657 dated June 5, 1980. This order granted the City interim rate relief equal to \$399,100 annually. The interim rates were effective for services rendered on and after June 2, 1980.

5. At the public hearing the City presented the following seven witnesses:

Robert Benson
James R. Wright
Carl H. Christensen
Allen Thelen
Samuel D. Boggess
Douglas B. Sipes
Gerald D. Underwood

6. The Applicant's proposal consisted of the following projections for a three year period:

TABLE 11

ADEQUACY OF WATER REVENUES TO MEET PROJECTED OBLIGATIONS
WITH A 32 PERCENT INTERIM INCREASE IN REVENUE EFFECTIVE MAY 1, 1980
AND A 32 PERCENT FINAL INCREASE EFFECTIVE OCTOBER 1, 1980

Line No.	Description	Fiscal Year Ending June 30		
		1980 \$	1981 \$	1982 \$
	Systems Operations			
1	Water Sales Revenue	3,311,000	3,363,000	3,415,000
2	Fire Service Fee Proceeds	426,000	435,000	444,000
2a	Additional Water and Fire Service Revenue			
	with Rate Increase (a)	147,000	1,214,000	1,238,000
3	Other Income	37,000	37,000	37,000
4	Interest Earned on Operating Funds (b)	2,000	-	-
5	Total Operating Income	3,923,000	5,049,000	5,134,000
6	Operation and Maintenance Expense	2,253,000	2,433,000	2,646,000
7	Net Operating Income	1,670,000	2,616,000	2,488,000
	Bond Debt Service			
8	1973 Bond Issue	614,000	614,000	614,000
9	1975 Bond Issue	206,000	213,000	215,000
10	Projected Bond Issues	-	360,000	360,000
11	Total Debt Service on Parity Bonds	820,000	1,187,000	1,189,000
12	1975 Refunding Bond Issue	485,000	437,000	474,000
13	Total Debt Service	1,305,000	1,660,000	1,663,000
14	Less: Investment Income	102,000	115,000	123,000
14a	Less: Use of Debt Service Reserves to Pay Debt Service	-	-	-
15	Add: Bond Debt Service Reserve			
	Restoration	130,000	130,000	130,000
16	Net Debt Service	1,333,000	1,675,000	1,670,000

<u>Line</u> <u>No.</u>	<u>Description</u>	<u>Fiscal Year Ending June 30</u>		
		<u>1980</u> <u>\$</u>	<u>1981</u> <u>\$</u>	<u>1982</u> <u>\$</u>
17	Net Revenue	337,000	941,000	818,000
18	Restoration of Working Capital and Contingency Reserve	100,000	100,000	100,000
19	Recurring Annual Capital Improvements	282,000	880,000	941,000
20	Deferred Recurring Annual Capital Improvements	<u>-</u>	<u>223,000</u>	<u>238,000</u>
21	Remaining Net Revenue - Current Year	(45,000)	(262,000)	(461,000)
22	Balance of Funds Available from Previous Year	<u>48,000</u>	<u>3,000</u>	<u>(259,000)</u>
23	Balance Available for Subsequent Year	3,000	(259,000) (d)	(720,000) (d)
Major Capital Improvement Financing				
24	Proceeds from Projected Bonds	-	3,500,000	-
25	Interest Income (c)	16,000	146,000	29,000
26	Balance of Funds from Previous Year	<u>473,000</u>	<u>29,000</u>	<u>975,000</u>
27	Total Funds Available	489,000	3,675,000	1,004,000
28	Major Capital Improvements	460,000	2,700,000	1,100,000
29	Balance Available for Subsequent Year	<u>29,000</u>	<u>975,000</u>	<u>(96,000)</u>

- (a) Reflects additional combined Water and Fire Service revenues with a 32 percent interim increase in revenues effective May 1, 1980, through September 30, 1980, and a 32 percent final increase effective October 1, 1980.
- (b) Assumes a yield of 6.5 percent on the average of beginning and ending of year balance from line 22 and 23 when positive.
- (c) Assumes a yield of 6.5 percent on the average of beginning (including bond proceeds) and end of year balances in the Construction Account.

- (d) Projected deficiencies represent debt service costs on projected 1981 bond sale of \$3,500,000, which is assumed to be recoverable under a separate future rate increase previously endorsed by the Public Service Commission rate order of July 17, 1978.

7. For the purposes of determining a revenue requirement in this case the Commission will focus on the projections for fiscal year 1982. This is the first full fiscal year that will reflect any increase granted in this Order. The Commission feels this is proper because the City's assumption of an interim increase in the full amount requested and effective May 1, 1980, did not come to pass.

8. The Commission finds the following projections to be uncontested:

	<u>1982</u>
Water Sales Revenue	\$3,415,009
Operation & Maintenance Expense	2,646,000
Bond Debt Service (exclusive of projected 1981 bond sale)	1,303,000
Bond Debt Service Restoration	130,000

9. However, the following projections were contested by the Montana Consumer Counsel:

	<u>1982</u>
Fire Service Fee Proceeds	\$ 444,000
Other Income	37,000
Interest Income (total)	152,000
Restoration of Working Capital & Contingency Reserve	100,000
Deferred Recurring Annual Capital Improvements	233,000
Recurring Annual Capital Improvements	941,000

10. The Consumer Counsel contends that the Fire Service fee proceeds should be increased by \$10,000 annually for the fiscal years 1980 through 1982. Consumer Counsel predicates his contention on the fact that the City underestimated by, \$10,000 the actual Fire Service fee proceeds for fiscal year 1979 when it made its original projections. The Commission does not find

this conclusive that all of the City's projections in this area are necessarily off by \$10,000. The Commission accepts the City's projection for revenues to be received from this source for fiscal years 1980 through 1982 as they are predicated upon estimates of the number of future fire service accounts.

11. Other Income as projected by the City is \$37,000 annually for fiscal years 1980 through 1982. The Consumer Counsel in his proposed order filed May 13, 1980 suggests that the Commission increase this projection to \$61,700. The Consumer Counsel bases his projection on an annualization of \$41,335.42 in income actually earned for fiscal year 1980 through February 29, 1980. The Commission recognizes that the Other Income account is one that is difficult to quantify and that annualization of an amount based upon the first eight months of fiscal year 1980 would not be totally accurate due to seasonal fluctuations. However, the fact that the revenue received during the first eight months of fiscal year 1980 exceeded the City's projections of \$37,000 annually, indicates that neither is the City's projection entirely accurate. The City's Exhibit A, Table 5, indicates that Other Income has fluctuated from a low of \$14,400 in 1976 to a high of \$138,600 in 1979. It is impossible to determine a trend from these figures because the 1976 figure is a net figure while the 1979 figure is a gross figure. Because of shortcomings in both the City's and the Consumer Counsel's projections and the lack of meaningful historical data, the Commission finds that an allowance of \$51,000 of other income is a reasonable level which fairly balances the eight month actual of \$41,335 and full normalization of \$61,700.

12. The City in its filing, projects that during fiscal year 1982 the City Will earn a total of \$152,000 in interest. The Consumer Counsel contends that there should be an upward adjustment of this projection to \$318,000. The Consumer Counsel predicates his adjustment on the fact the actual interest earned for fiscal year 1980 through February 29, 1980, excluding interest on the escrow account, was \$212,992.03. Consumer Counsel maintains annualization of this amount would approximate earned interest of \$318,000. Again it would appear the City has under projected the interest amount in view of the fact that the interest earned during the first eight months of fiscal year 1980 already exceeds its projection. However, the Commission feels it would be unrealistic to accept an eight months' annualized figure when the eight month base period contained a period of

abnormally high interest rates. The Commission is of the opinion that the interest amount earned during fiscal year 1979 will be a better approximation of actual operating results for upcoming years. Therefore, the Commission will adopt \$228,000 as the amount of interest income.

13. The Commission must recognize that the City will have available funds from bond debt service restoration from which additional interest income will be generated. The Commission recognizes that the City will receive approximately \$26,000 (\$325,000 @ 8%) in additional interest.

14. The Commission rejects the accumulation of \$100,000 for three years for establishment of a working capital and contingency reserve. The Commission has a problem distinguishing between the Recurring Annual Capital improvements account and the proposed Working Capital and Contingency Reserve account. It appears to the Commission that both accounts are utilized for essentially the same purposes. Despite every opportunity to do so, the City has failed to draw a sufficiently clear distinction between the two to justify the existence of both. Furthermore, use of a projected test year for revenues and expenses in this case goes against the need for an additional allowance for working capital and contingency.

15. For fiscal year 1982, the City proposed an expenditure of \$941,000 for Recurring Annual Capital Improvements and \$238,000 for Deferred Recurring Capital Improvements.

16. The Commission in its Order No. 4406a (Docket No. 6542), dated July 17, 1978, allowed operating revenues of \$600,000 for Recurring Annual Capital Improvements (RACI). The Commission's allowance of \$600,000 for RACI in Docket No. 6542 was based upon a submission by the City specifically outlining a five year plan (1978-79 through 1982-83) for improvements to its water distribution system. A summary of that plan showing construction costs in 1978 dollars and inflation added at 6 percent per year through the selected completion date of each project is as follows:

<u>Year</u>	<u>Project Cost</u>	<u>Inflation Added</u>	<u>Total</u>
1978-79	\$583,100		\$ 583,100
1979-80	492,800	\$ 29,568	522,368
1980-81	476,300	57,156	533,456
1981-82	452,900	81,522	534,422
1982-83	521,400	125,136	<u>645,536</u>

Average \$ 563,976

In Docket No. 6542 the Commission determine that \$600,000 RACI was appropriate because it would allow for the average completion cost of each years projects plus \$36,000 for unexpected costs.

17. Because the five year plan still covers the three year period projected by the City in this case, Consumer Counsel reintroduced the plan as its Exhibit No. 1 in this docket. Consumer Counsel Exhibit No. 1 (the 5 year plan) is the only evidence of a specified need for RACI before the Commission in this case. There is no other evidence describing materials, expected costs, scheduling and locations of projects that must be undertaken as RACI.

18. Therefore, the Commission finds that \$600,000 continues to be an appropriate allowance for RACI in this case. That amount will allow those projects originally scheduled for 1980-81, 1981-82 and 1982-83 to be completed as scheduled. No additional allowance for inflation is necessary because those projects had already received an inflation factor through their expected completion dates in Docket No. 6542.

19. The City argued that although the Commission allowed \$600,000 for RACI in its last rate order, actual revenues did not permit the City to expend that amount. The City contends that other demands on revenue which have a legal priority to RACI depleted funds available for RACI. This caused a deferral of RACI from fiscal years 1979 and 1980. The City maintains that it is vital that these deferred capital improvements be made in the near future in order to insure the continued operation of an adequate water system in Billings. It is the City's position that funds must be available for these deferred capital improvements above and beyond those already allowed for RACI.

20. The City's Exhibit No. 11 indicates deferred annual capital improvements for fiscal years 1979 and 1980 in the amount of \$860,000 including inflation. However, again the only

recurring annual capital improvements which the Commission has specific knowledge of are those contained in the five year plan (Consumer Counsel's Exhibit No. 1). Witnesses for the City testified that none of the five year plan projects contemplated for completion in fiscal years 1979 and 1980 have been undertaken. Therefore, the Commission will recognize \$1,075,900 (1978 dollars) as being deferred recurring annual capital improvements. That is the total amount of 1978-79 and 1979-80 improvements contemplated in the five year plan.

21. As concerning the urgency of these deferred capital improvements the Commission finds that it would be appropriate to allow the City adequate funds to complete the deferred projects by the end of fiscal year 1983, thereby allowing completion of the entire five year plan within the originally scheduled period. The City should be allowed funds over the next three years adequate to allow completion of one-third of the deferred recurring annual capital improvements each year. This would amount to an average of \$424,000 per year including the allowance of 6 percent inflation per year through the time of completion of each project.

\$1,075,900 (1978 dollars) divided by 3 = \$359,000
(1978 dollars) of deferred improvements for
the next three years

Allowing for 6 percent inflation per year which is consistent with the Commission's action in Docket No. 6542 results in the following:

<u>Year</u>	<u>Amount</u>
1980-81	402,000
1981-82	424,000
1982-83	445,000

Average deferred recurring annual capital improvements equals \$424,000.

22. Based upon the foregoing, the Commission finds the following revenue deficiency through fiscal year 1982:

Revenues and Income	
Water and Sales Revenue	\$3,415,000
Fire Service Proceeds	444,000
Other Income	51,000
Interest Earned	<u>254,000</u>

Sub-total Revenues and Income	\$4,164,000
Expenditures	
Operation and Maintenance	\$(2,646,000)
Debt Service	(1,303,000)
Bond Debt Service Restoration	(130,000)
Deferred Recurring Annual Capital	
Improvements	(424,000)
Recurring Annual Capital Improvements	<u>(600,000)</u>
Sub-total Expenditures	<u>(5,103,000)</u>
Revenue Deficiency	\$ 939,000

23. The Commission finds that increased revenues in the amount of \$939,000 annually are justified.

CONCLUSIONS OF LAW

1. The Montana Public Service Commission properly exercises jurisdiction over the subject matter and parties in this proceeding.
2. The Commission has afforded all interested persons notice and opportunity to participate in these proceedings.
3. The rates approved herein are reasonable and just.

ORDER

NOW THEREFORE, at a session of the Public Service Commission, Department of Public Service Regulation of the State of Montana, held in its offices at 1227 11th Avenue, Helena, Montana, on the 22nd day of September, 1980, there being present a quorum of Commissioners, there came regularly before the Commission for final action the matters and things in Docket No. 6773, and the Commission being fully advised in the premises;

IT IS ORDERED by the Commission that the City of Billings shall submit a schedule of rates and charges which will produce a total additional annual revenue of \$939,000. This figure is

calculated as shown in Finding of Fact No. 22. This amount is in lieu of, not in addition to, the interim rate granted June 5, 1980.

IT IS FURTHER ORDERED that the City of Billings filed revised tariff schedules spreading the increased revenues as a flat percentage increase to each of the existing customer classifications.

IT IS FURTHER ORDERED that the City shall submit monthly an account of all activity in the Recurring Annual Capital Improvement Account.

IT IS FURTHER ORDERED that the City will file reduced rates on or before July 1, 1983 reflecting the reduction caused by the completion of the Deferred Capital Improvements being completed amounting to a revenue reduction of \$424,000.

IT IS FURTHER ORDERED that the rates as ordered herein shall be effective for services rendered on and after September 22, 1980.

IT IS FURTHER ORDERED that a full, true and correct copy of this order be sent forthwith by first class mail to the Applicant and all other appearances herein.

THE FOREGOING ORDER was adopted by the Department of Public Service Regulation of the State of Montana, Public Service Commission, IN OPEN SESSION at Helena, Montana on this 22nd day of September, 1980, by a vote of 3-0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.

CLYDE JARVIS, Commissioner

THOMAS J. SCHNEIDER, Commissioner

GEORGE TURMAN, Commissioner

ATTEST:

Madeline L. Cottrill
Secretary

(SEAL)

NOTE: You may be entitled to judicial review of the final decision in this matter. If no Motion for Reconsideration is filed, judicial review may be obtained by filing a petition for review within thirty (30) days from the service of this order. If a Motion for Reconsideration is filed, a Commission order is final for purpose of appeal upon the entry of a ruling on that motion, or upon the passage of ten (10) days following the ruling of that motion. cf. the Montana Administrative Procedure Act, esp. Sec. 2-4-702, MCA; and Commission Rules of Practice and Procedure, esp. 38-2.2(64)-P2750, ARM.